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STATE OF MONTANA
REPORT TO THE LEGISLATURE
DEPARTMENT OF ADMINISTRATION
TREASURY BUREAU

Report on the Examination of the
Schedule of Cash Accountability
Fiscal Year Ended June 30, 1982



OFFICE OF THE LEGISLATIVE AUDITOR

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STATE OF MONTANA
REPORT TO THE LEGISLATURE
DEPARTMENT OF ADMINISTRATION
TREASURY BUREAU

Report on the Examination of the
Schedule of Cash Accountability
Fiscal Year Ended June 30, 1982

82-20

Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620



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DEPARTMENT OF ADMINISTRATION

TREASURY BUREAU

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

Morris L. Brusett	Director, Department of Administration and "Ex Officio" State Treasurer
Rick Morgan	Administrator, Centralized Services Division
Ray Hofland	Chief, Treasury Bureau

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of the Department of Administration is included in the back of this report.

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1. Establish procedures to ensure cash received by June 30 in depository banks is recorded as current year activity.	3
<u>Agency Reply:</u> Concur. See Page 13.	
2A. Research various systems of depositing money into the state treasury to increase earnings.	5
<u>Agency Reply:</u> Concur. See Page 13.	
2B. Adopt the most efficient and cost effective system for depositing money into the state treasury.	5
<u>Agency Reply:</u> Concur. See Page 13.	



GENERAL

We performed a financial compliance audit of the Department of Administration, Treasury Bureau, for the fiscal year ended June 30, 1982. The objectives of our audit were to:

1. Determine whether the Schedule of Cash Accountability was fairly presented at June 30, 1982.
2. Determine whether the Treasury Bureau complied with applicable state laws and regulations.
3. Develop recommendations for the improvement in the management and internal controls of the Bureau.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in the report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the staff of the Treasury Bureau for the cooperation and assistance received during our audit.

BACKGROUND

Effective July 1, 1977, and pursuant to section 2-15-1002, MCA, all functions and duties of the State Treasurer as prescribed by law are performed by the director of the Department of Administration who serves as "ex officio" State Treasurer. The State Treasurer's Office became the treasury function of the Department of Administration on July 1, 1977. It operates as the Treasury Bureau under the Centralized Services Division of the department.

The duties of the Treasury Bureau include:

1. Receive and account for all moneys belonging to the state, not expressly required by law to be received and kept by some other person;
2. Pay warrants out of the funds upon which they are drawn;

3. Upon payment of any warrant, take upon the back thereof the receipt of the person to whom it is paid;
4. Keep an account of all moneys received and disbursed;
5. At the request of either house of the legislature or of any committee thereof, give information in writing as to the condition of the treasury or upon any subject relating to the duties of the Bureau; and
6. Discharge such other duties as may be imposed upon the Bureau by law.

During the fiscal year ended June 30, 1982, the Bureau employed eight individuals.

CASH CUT-OFF

The Treasury Bureau's general ledger for cash in demand accounts represents the combined balances for 159 depository banks. At June 30, 1982 the ledger reported a balance of \$10,453,718.

We confirmed 32 bank balances at fiscal year-end June 30, 1982. In reconciling the balances to the fiscal year-end cash in demand account, we noted eleven banks which were misstated on the Statewide Budgeting and Accounting System (SBAS). A time lag existed between the actual bank deposit and the recording of the deposit on SBAS.

The most significant reconciling item was at the Northwestern Bank in Helena. The bank received a \$727,276 wire transfer on June 30, 1982. However the Investments Division, Department of Administration, did not submit the collection report by the July 7 cut-off date. As a result, we project the net understatement of cash as reported on the Treasury Bureau's general ledger at fiscal

year-end June 30, 1982 is between \$674,000 and \$771,000. The agency adjusted the schedule for the \$727,276 wire transfer.

According to state policy cash received in a depository bank by June 30, 1982 is fiscal year 1982 activity. The state agencies had until July 7, 1982 to submit collection reports with deposit tickets dated June 30, 1982 or earlier. Treasury Bureau officials indicated state agencies do not always submit timely collection reports for deposits to the cash accounts. However, Treasury Bureau officials can review year-end activity and appropriately notify the agencies of any significant items requiring adjustment to ensure adequate cash cut-off.

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION, TREASURY BUREAU, ESTABLISH PROCEDURES TO ENSURE CASH RECEIVED BY JUNE 30 IN DEPOSITORY BANKS IS RECORDED AS CURRENT YEAR ACTIVITY.

DEPOSITORY BANKS

The current system of depositing money into the state treasury appears to be obsolete and inefficient. The Treasury Bureau contacts 158 banks weekly and issues checks or wire transfers to draw the money into the state's central bank account. Each bank account is also reconciled monthly to SBAS. These tasks involve at least one full-time equivalent (FTE) employee.

The Treasury Bureau maintains approximately 155 outside depository bank accounts and four Helena bank accounts, including

the state's central bank account. The following larger cities utilize multiple state bank accounts:

- 1) Billings - 7
- 2) Great Falls - 7
- 3) Missoula - 6
- 4) Butte - 5
- 5) Bozeman - 4

The state also maintains accounts in two or three banks in several smaller towns.

State agencies deposit money into various depository banks across the state. The money accumulates at the banks until the Treasury Bureau transfers the money. The Treasury Bureau contacts smaller banks weekly and larger banks daily to determine the balance available to be deposited into the state's central bank account. Money is transferred by a wire transfer or a check issued by the Treasury Bureau. Any time delay in this transfer process reduces the state's opportunity for investment earnings.

The money in outside banks not available for investment averages \$2 million per month. A portion of the \$2 million remains in the banks as a compensating balance. Using the short term investment rate of 13.83 percent, compounded monthly, this results in lost interest for the year of approximately \$300,000. However, this amount does not reflect the offsetting costs associated with the services provided by the banks (i.e., compensating balances or service charges).

We contacted ten other State Treasurer Offices to determine their procedures for depositing state money. Even though systems

varied from state to state, we found that seven out of ten states had one main depository bank. Branch and unit banks were utilized along with wire transfers. In most cases money was invested immediately without any lost interest. In contrast, Montana routinely deposits money into 158 outside depository bank accounts and cannot invest the moneys while it remains in those accounts.

To evaluate the efficiency and effectiveness of the current system, the Department of Administration should research various systems of depositing money into the state treasury. Alternatives include consolidating banks in larger towns, lock-box systems, direct deposits to the state's central bank account, or the automatic transfer to the state's central account of moneys exceeding a predetermined limit.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION,
TREASURY BUREAU:

- A. RESEARCH VARIOUS SYSTEMS OF DEPOSITING MONEY INTO THE STATE TREASURY TO INCREASE EARNINGS.
- B. ADOPT THE MOST EFFICIENT AND COST EFFECTIVE SYSTEM FOR DEPOSITING MONEY INTO THE STATE TREASURY.

PRIOR AUDIT RECOMMENDATIONS

The prior audit of the Department of Administration, Treasury Bureau, was performed by a CPA firm for fiscal year 1980-81. The report contained one recommendation which the bureau concurred with and implemented during fiscal year 1981-82.

INTERNAL CONTROLS

We have examined the financial schedule of the Department of Administration, Treasury Bureau, for the fiscal year ended June 30, 1982. We issued our opinion dated September 1, 1982, on the Schedule of Cash Accountability. As part of our examination, we made a study and evaluation of the system of control over cash for the Treasury Bureau. Our study evaluated the system as required by generally accepted governmental auditing standards for financial and compliance audits. Through our study, we determined the nature, timing, and extent of our auditing procedures.

The management of the Department of Administration, Treasury Bureau, is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance: 1) that assets are safeguarded against loss from unauthorized use or disposition; 2) that transactions are executed in accordance with management's authorization; and 3) that transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system of evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the Treasury Bureau.

The preceding three paragraphs are intended solely for the use of management and the legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon acceptance by the Legislative Audit Committee, is a matter of public record.



AUDITOR'S REPORT AND SCHEDULE

Office of the Legislative Auditor



ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

STATE CAPITOL
HELENA, MONTANA 59620
406/449-3122

DEPUTY LEGISLATIVE AUDITORS
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AND CONTRACTED AUDITS
SCOTT A. SEACAT
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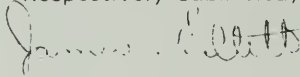
The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Schedule of Cash Accountability for the Department of Administration, Treasury Bureau, as of June 30, 1982. Our examination was made in accordance with generally accepted governmental auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as indicated in the following paragraph. The Schedule of Cash Accountability presented at June 30, 1981 was examined by other auditors whose opinion dated October 2, 1981, was qualified subject to the effects of any adjustments which might have been necessary had they audited the Employment Security Division bank balances.

We did not test the balances presented for investments. These investments were examined by other auditors whose report has been furnished to us. Our opinion, as it relates to investments, is based solely on the report of the other auditors.

In our opinion, the Schedule of Cash Accountability presents fairly the resources and accountability of the Treasury Bureau at June 30, 1982 in a manner consistent with that of the preceding year.

Respectively submitted,



James H. Gillett, CPA
Deputy Legislative Auditor
Financial/Compliance & Contract Audits

September 1, 1982

Approved by:



Robert R. Ringwood
Legislative Auditor

STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
TREASURY BUREAU
SCHEDULE OF CASH ACCOUNTABILITY

<u>RESOURCES</u>	<u>June 30, 1982</u>	<u>June 30, 1981</u>
<u>Cash</u>		
Cash on Hand	\$ 3,000	\$ 12,000
Cash in Employment Security Division Demand Accounts		979,291
Cash in Employment Security Division U.S. Treasury Accounts		19,116,700
Cash in Demand Accounts	<u>11,180,994</u>	<u>12,221,095</u>
	<u>11,183,994</u>	<u>32,329,086</u>
<u>Investments</u>		
Purchased Interest		74,417
Short Term Investment Pool (at cost)	136,405,292	136,405,292
Other Investments (at cost)	<u>149,388,868</u>	<u>111,023,541</u>
	<u>285,794,160</u>	<u>247,503,250</u>
<u>Other Resources</u>		
Cash with Fiscal Agents	<u>5,478,013</u>	<u>1,438,320</u>
TOTAL RESOURCES	<u>\$302,456,167</u>	<u>\$281,270,656</u>
 <u>ACCOUNTABILITY</u>		
Accountability for Cash in Treasury	\$277,250,954	\$264,722,711
Accountability for Outstanding Warrants	<u>25,205,213</u>	<u>16,547,945</u>
TOTAL ACCOUNTABILITY	<u>\$302,456,167</u>	<u>\$281,270,656</u>

See the accompanying auditors' report and the notes to the schedule.



STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
TREASURY BUREAU
NOTES TO THE SCHEDULE
June 30, 1982

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Schedule Presented - The Treasury Bureau's only schedule is the Schedule of Cash Accountability as the Treasury Bureau reports on specific resources and the accountability for those resources. Revenue, expenditures, and changes in fund balance are reported in the statements of the state agencies which collect the revenue or authorize the expenditures. Additionally, the Schedule of Cash Accountability reflects utilization of the cash method of accounting.

2. CASH WITH FISCAL AGENTS

This account represents cash advanced to fiscal agents for bond and bond coupon redemption. The money required at each date of a bond or bond coupon redemption is transferred to the fiscal agent just prior to such date. The fiscal agent redeems the bonds or the coupons and returns the paid cancelled bonds and coupons to the Treasury Bureau.

3. ACCOUNTABILITY FOR OUTSTANDING WARRANTS

This account represents outstanding warrants issued by the State Auditor which have not been presented for payment to the Treasury Bureau as of June 30, 1982.

4. INVESTMENTS

Investments are stated at cost at June 30, 1982. As of that date, market value approximated \$123,816,733 for the short term investment pool units. Market value of other investments as determined by the Board of Investments was \$153,774,546.

5. CASH IN EMPLOYMENT SECURITY DIVISION DEMAND ACCOUNTS AND U.S. TREASURY ACCOUNTS

Subsequent to June 30, 1981, responsibility for Cash in Employment Security Division Demand Accounts and U.S. Treasury Accounts was transferred to the Department of Labor. Therefore, the 1982 Schedule of Cash Accountability excludes presentation of those amounts. Restatement of June 30, 1981 balances for Employment Security Division cash would have resulted in a downward adjustment of resources by \$20,095,991.

AGENCY REPLY

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE



TEDSCHWINDEN GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

(406)449 2032

HELENA MONTANA 59620

October 7, 1982

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MONTANA LEGISLATIVE AUDITOR

Robert R. Ringwood
Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Ringwood:

In accordance with your request, we submit the following response to recommendations included in the recently completed audit for the Department of Administration, Treasury Bureau:

RECOMMENDATION #1

We recommend the Department of Administration, Treasury Bureau, establish procedures to ensure cash received by June 30 in depository banks is recorded as current year activity.

Response

The department concurs that proper cutoff and accountability for cash is important, and to that end will expand its cutoff period and establish review procedures to inform agencies of problem areas in cash accountability.

It is important, however, to emphasize that the major criticism by the Auditor has been reflected in our financial schedule, and inherently it is the individual depositing agency's responsibility to properly record its transactions. Errors in accounting documentation and bank deposit data occur each month and are corrected with state agency and treasury cooperation within a very short span of time. Usually the amount in error is quite small.

RECOMMENDATION #2

We recommend the Department of Administration, Treasury Bureau:

- A. Research various systems of depositing money into the state treasury to increase earnings.

- B. Adopt the most efficient and cost effective system for depositing money into the state treasury.

Response

The department concurs in principle with the Auditor's recommendation and has taken several steps over the past eighteen months to improve the state's cash management system. For instance, the balances held by Helena banks apart from the Clearing Bank have been reduced in response to previous audit comments so that during June 1982 those average daily balances were \$29,109. In addition, as a result of redefining and rebidding the Clearing Bank contract, the Clearing Bank compensating balance has been lowered from a collected balance of \$3.2 million to an initial bid balance of \$1.4 million. These two actions alone have made available additional funds for investment.

Approximately a year ago we initiated a study of ways to generate increased earnings from outside bank deposits. The results of our review were referred to the Governor's Council on Management for its analysis and review. We have just received its final report and will be responding to its recommendations also. We have also initiated discussions with the banking community and the Helena Federal Reserve Bank on ways to increase earnings on bank deposits while reasonably compensating banks for services provided.

To avoid any misunderstanding, we want to expand on the Auditor's comments relating to potentially lost interest on outside bank balances. First, our average collected balance of \$2.0 million in outlying banks during 1982 is significantly below the maximum level of \$2.5 million set by the Board of Investments in 1979. This indicates idle funds are being made available for investment.

Secondly, we believe a meaningful figure in potential lost interest can be developed only after computing reasonable bank service charges. These two factors would significantly reduce the amount reported in the audit report.

Thank you for allowing us to respond and we will be glad to meet with you when the report is reviewed by the Audit Committee.

Sincerely,


MORRIS L. BRUSETT
Director



